

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date			Date Accountant Report Submitted to State:		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Charter Township of Gaines
Kent County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended December 31, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Charter Township of Gaines' (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net assets increased by \$247,603 (less than one percent) as a result of this year's activities. Net assets of the governmental activities increased by \$230,383 and net assets of the business-type activities increased by \$17,220.
- Of the \$73,764,494 total net assets reported, \$11,092,792 (15 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$216,233, which represents 10 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's basic financial statements are comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.
 - Fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2005 and 2004 is also presented.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as fire and police protection and general government. State shared revenue and property taxes finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer and water systems are reported here as well as its construction code inspection services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

- *Governmental funds.* Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.

Charter Township of Gaines

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$73,764,494, an increase of less than one percent compared to the prior year. Of this total, \$62,539,688 is invested in capital assets and \$132,014 is restricted for various purposes. Consequently, unrestricted net assets were \$11,092,792, or 15 percent of the total.

Condensed financial information
Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<i>2004</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>
Current assets	\$ 1,332,842	\$ 1,702,459	\$ 9,590,000	\$ 10,601,627	\$ 10,922,842	\$ 12,304,086
Noncurrent assets	6,426,045	8,020,892	55,663,277	54,701,859	62,089,322	62,722,751
Total assets	7,758,887	9,723,351	65,253,277	65,303,486	73,012,164	75,026,837
Current liabilities	965,219	1,049,506	179,848	212,837	1,145,067	1,262,343
Noncurrent liabilities	-	-	-	-	-	-
Total liabilities	965,219	1,049,506	179,848	212,837	1,145,067	1,262,343
Net assets:						
Invested in capital assets, net of related debt	6,426,045	8,020,892	55,343,252	54,518,796	61,769,297	62,539,688
Restricted	59,244	132,014	-	-	59,244	132,014
Unrestricted	308,379	520,939	9,730,177	10,571,853	10,038,556	11,092,792
Total net assets	\$ 6,793,668	\$ 8,673,845	\$ 65,073,429	\$ 65,090,649	\$ 71,867,097	\$ 73,764,494

Changes in net assets. The Township's total revenues are \$8,571,364. Over 46 percent of the revenues come from charges for services, primarily from sewer and water services. Over 16 percent of the total revenues come from state shared revenue while only 8 percent come from property taxes.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The total cost of all the Township's programs, covering a wide range of services, totaled \$7,117,726. Over 62 percent of the Township's costs relate to the provision of utility services. Public safety and general government each account for 13 percent of the Township's total costs.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<i>2004</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>	<i>2005</i>
Program revenues:						
Charges for services	\$ 156,320	\$ 249,299	\$ 3,388,576	\$ 3,721,171	\$ 3,544,896	\$ 3,970,470
Operating grants and contributions	7,691	17,475	-	-	7,691	17,475
Capital grants and contributions	-	-	4,686,873	1,920,902	4,686,873	1,920,902
General revenues:						
Property taxes	542,965	687,284	-	-	542,965	687,284
State shared revenue	1,412,144	1,394,765	-	-	1,412,144	1,394,765
Other	274,242	253,344	117,160	327,124	391,402	580,468
Special item - gain on property sale	632,977	-	-	-	632,977	-
Total revenues	<u>3,026,339</u>	<u>2,602,167</u>	<u>8,192,609</u>	<u>5,969,197</u>	<u>11,218,948</u>	<u>8,571,364</u>
Expenses:						
Legislative	8,589	10,995	-	-	8,589	10,995
General government	969,526	869,129	-	-	969,526	869,129
Public safety	986,592	947,851	-	-	986,592	947,851
Public works	216,297	280,630	-	-	216,297	280,630
Community and economic development	164,537	183,296	-	-	164,537	183,296
Culture and recreation	27,824	34,618	-	-	27,824	34,618
Interest	2,656	45,265	-	-	2,656	45,265
Inspections	-	-	299,973	354,149	299,973	354,149
Sewer	-	-	2,142,575	2,228,187	2,142,575	2,228,187
Water	-	-	1,797,070	2,163,606	1,797,070	2,163,606
Special item - transfer of capital assets	-	-	-	1,206,035	-	1,206,035
Total expenses	<u>2,376,021</u>	<u>2,371,784</u>	<u>4,239,618</u>	<u>5,951,977</u>	<u>6,615,639</u>	<u>8,323,761</u>
Increase in net assets	<u>\$ 650,318</u>	<u>\$ 230,383</u>	<u>\$ 3,952,991</u>	<u>\$ 17,220</u>	<u>\$ 4,603,309</u>	<u>\$ 247,603</u>

Governmental activities

Governmental activities increased the Township's net assets by \$230,383 in 2005 compared with a \$650,318 increase in 2004. The increase in 2004 was created almost entirely by a gain on the sale of property. The increase in 2005 is the result of an increase in revenues, including charges for various services (\$93,000) and property taxes (\$144,000), while total expenses actually decreased.

The cost of all governmental activities this year was \$2,371,784. After subtracting the direct charges to those who directly benefited from the programs (\$249,299), and operating grants (\$17,475), the "public benefit" portion covered primarily by property taxes and state revenue sharing, was \$2,105,010.

Charter Township of Gaines
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Business-type activities

Business-type activities increased the Township's net assets by \$17,220 in 2005 compared to an increase of \$3,952,991 in 2004. The increase was significantly lower in 2005 due to a reduction in capital contributions (\$2.8 million) and a special item involving the transfer of property to another governmental unit (\$1.2 million).

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds. As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$652,953, an increase of \$230,136 in comparison with the prior year. The increase occurred because of the revenue increases noted above and an effort to control costs. Of the total fund balances, 90 percent constitutes unreserved fund balance, which is available for spending at the Board's discretion. The remainder of fund balance, in the amount of \$67,134, is reserved to indicate that it is not available for new spending because it is legally restricted for street lighting expenditures.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$216,233, which represents 10 percent of the actual total General Fund expenditures for the current fiscal year. Revenues exceeded expenditures in 2005 by \$321,658 because of the increase in property tax revenues and charges for services. While revenues exceeded expenditures, the fund balance decreased by \$73,342 due to transfers to special revenue funds totaling \$395,000.

The Township Improvement Revolving Fund experienced an increase in fund balance of \$280,037 due to a \$380,000 transfer from the General Fund.

Proprietary funds. The Sewer Fund experienced an operating loss of \$539,736. However, net assets increased by \$407,347 due to substantial nonoperating revenues including capital contributions and trunkage and availability fees. Net assets were \$38,442,633 at year end while net working capital amounted to \$4,700,142.

The Water Fund experienced an operating loss of \$319,460. The Water Fund also recognized substantial nonoperating revenues, but the net assets decreased by \$455,548. The decrease was the result of a special item, involving the transfer of capital assets to another unit of government, in the amount of \$1,087,351. Net assets were \$26,203,032 at year end while net working capital amounted to \$5,243,664.

The Building Inspections Fund generated operating income of \$65,421. Net assets were \$444,984 at year end.

General Fund budgetary highlights

It was unnecessary for the Board to amend the budgeted expenditures of the General Fund during the year as total actual expenditures were \$325,639 less than the amount originally budgeted. The most significant positive variances were associated with the general government function (\$163,188) and the public safety function (\$152,659).

Capital assets and debt administration

Capital assets

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2005, amounts to \$62,539,688 (net of accumulated depreciation). This investment includes a broad range of assets, including buildings, fire equipment, and sewer and water facilities. The increase in the Township's net investment in capital assets for the current fiscal year was \$770,391.

Major capital asset events during the current fiscal year included the following:

- Continued expansion of the sewer and water systems totaling \$1,843,112.
- Purchase of a tanker for the Dutton Fire Department, in the amount of \$100,054.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Economic condition and outlook

While we were able to end 2005 with a net increase in the fund balances of the governmental funds, multiple factors were involved. Many of the departments finished the year very close to earlier budget projections. Expenditures have been carefully monitored throughout the year. Projects involving the park/trails have been placed on hold as we continue to seek grant funding for the first development phase. A portion of funding for contracted services has been reallocated to the 2006 budget year. Currently, our fund balance is reasonably healthy for day to day operations; however, with increasing demands for services coupled with increasing costs it is imperative that future funding needs be addressed. Public safety costs continue to escalate with nearly one million dollars being budgeted for 2006 and that amount does not include the cost of fire apparatus replacement or additional public safety personnel.

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Donald Hilton, Township Supervisor
Charter Township of Gaines
8555 Kalamazoo Avenue, SE
Caledonia, MI 49316

Phone: (616) 698-6640

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Charter Township of Gaines, Michigan**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines, Michigan, as of December 31, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Gaines, Michigan, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Charter Township of Gaines, Michigan
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Gaines, Michigan's basic financial statements. The accompanying supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall A.C.

February 24, 2006

BASIC FINANCIAL STATEMENTS

Charter Township of Gaines
STATEMENT OF NET ASSETS
December 31, 2005

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 847,643	\$ 5,802,064	\$ 6,649,707
Investments	53,051	3,911,655	3,964,706
Receivables, net	781,861	907,812	1,689,673
Internal balances	19,904	(19,904)	-
Total current assets	<u>1,702,459</u>	<u>10,601,627</u>	<u>12,304,086</u>
Noncurrent assets:			
Receivables, net	-	183,063	183,063
Capital assets, net of depreciation	<u>8,020,892</u>	<u>54,518,796</u>	<u>62,539,688</u>
Total noncurrent assets	<u>8,020,892</u>	<u>54,701,859</u>	<u>62,722,751</u>
Total assets	<u>9,723,351</u>	<u>65,303,486</u>	<u>75,026,837</u>
LIABILITIES			
Current liabilities:			
Payables	105,452	212,837	318,289
Deferred revenue	<u>944,054</u>	<u>-</u>	<u>944,054</u>
Total current liabilities	<u>1,049,506</u>	<u>212,837</u>	<u>1,262,343</u>
NET ASSETS			
Invested in capital assets	8,020,892	54,518,796	62,539,688
Restricted for:			
Public works	77,148	-	77,148
Culture and recreation	54,866	-	54,866
Unrestricted	<u>520,939</u>	<u>10,571,853</u>	<u>11,092,792</u>
Total net assets	<u>\$ 8,673,845</u>	<u>\$ 65,090,649</u>	<u>\$ 73,764,494</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF ACTIVITIES
Year ended December 31, 2005

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Legislative	\$ 10,995	\$ -	\$ -	\$ -
General government	869,129	92,320	-	-
Public safety	947,851	136,031	-	-
Public works	280,630	-	14,608	-
Community and economic development	183,296	17,694	-	-
Culture and recreation	34,618	3,254	2,867	-
Interest	45,265	-	-	-
Total governmental activities	<u>2,371,784</u>	<u>249,299</u>	<u>17,475</u>	<u>-</u>
Business-type activities:				
Sewer	2,228,187	1,643,121	-	967,195
Water	2,163,606	1,658,480	-	953,707
Inspections	354,149	419,570	-	-
Total business-type activities	<u>4,745,942</u>	<u>3,721,171</u>	<u>-</u>	<u>1,920,902</u>
Totals	<u>\$ 7,117,726</u>	<u>\$ 3,970,470</u>	<u>\$ 17,475</u>	<u>\$ 1,920,902</u>

General revenues:

Property taxes
State grants
Interest income
Cable franchise fees
Other

Special item - transfer of capital assets to other unit

Total general revenues and special item

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenue and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (10,995)		\$ (10,995)
(776,809)		(776,809)
(811,820)		(811,820)
(266,022)		(266,022)
(165,602)		(165,602)
(28,497)		(28,497)
(45,265)		(45,265)
<u>(2,105,010)</u>		<u>(2,105,010)</u>
	\$ 382,129	382,129
	448,581	448,581
	<u>65,421</u>	<u>65,421</u>
	<u>896,131</u>	<u>896,131</u>
<u>(2,105,010)</u>	<u>896,131</u>	<u>(1,208,879)</u>
687,284	-	687,284
1,394,765	-	1,394,765
38,311	327,124	365,435
156,630	-	156,630
58,403	-	58,403
-	(1,206,035)	(1,206,035)
<u>2,335,393</u>	<u>(878,911)</u>	<u>1,456,482</u>
230,383	17,220	247,603
<u>8,443,462</u>	<u>65,073,429</u>	<u>73,516,891</u>
<u>\$ 8,673,845</u>	<u>\$ 65,090,649</u>	<u>\$ 73,764,494</u>

See notes to the financial statements

Charter Township of Gaines
BALANCE SHEET - governmental funds
December 31, 2005

	<u>General</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS			
Cash	\$ 480,330	\$ 367,313	\$ 847,643
Investments	50,778	2,273	53,051
Due from other funds	19,904	-	19,904
Receivables, net	<u>781,861</u>	<u>-</u>	<u>781,861</u>
Total assets	<u>\$ 1,332,873</u>	<u>\$ 369,586</u>	<u>\$ 1,702,459</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 105,452	\$ -	\$ 105,452
Deferred revenue	<u>944,054</u>	<u>-</u>	<u>944,054</u>
Total liabilities	<u>1,049,506</u>	<u>-</u>	<u>1,049,506</u>
Fund balances:			
Reserved for street lighting	67,134	-	67,134
Unreserved, undesignated	<u>216,233</u>	<u>369,586</u>	<u>585,819</u>
Total fund balances	<u>283,367</u>	<u>369,586</u>	<u>652,953</u>
Total liabilities and fund balances	<u>\$ 1,332,873</u>	<u>\$ 369,586</u>	<u>\$ 1,702,459</u>
Total fund balances - all governmental funds			\$ 652,953
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 4) are different because:			
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.			<u>8,020,892</u>
Net assets of <i>governmental activities</i>			<u>\$ 11,029,257</u>

See notes to the financial statements

Charter Township of Gaines**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended December 31, 2005

	<u>General</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES			
Property taxes	\$ 687,284	\$ -	\$ 687,284
State grants	1,404,373	-	1,404,373
Contribution from local unit	-	5,000	5,000
Charges for services	217,689	-	217,689
Interest and rentals	98,783	665	99,448
Other:			
Special assessment - street lighting	127,103	-	127,103
Miscellaneous	58,403	2,867	61,270
Total revenues	<u>2,593,635</u>	<u>8,532</u>	<u>2,602,167</u>
EXPENDITURES			
Legislative	10,995	-	10,995
General government	690,868	-	690,868
Public safety	842,180	-	842,180
Public works	367,734	-	367,734
Community and economic development	181,096	-	181,096
Culture and recreation	31,738	-	31,738
Capital outlay	102,101	100,054	202,155
Debt service - interest	45,265	-	45,265
Total expenditures	<u>2,271,977</u>	<u>100,054</u>	<u>2,372,031</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>321,658</u>	<u>(91,522)</u>	<u>230,136</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	395,000	395,000
Transfers out	(395,000)	-	(395,000)
Total other financing sources (uses)	<u>(395,000)</u>	<u>395,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(73,342)</u>	<u>303,478</u>	<u>230,136</u>
FUND BALANCES - BEGINNING	<u>356,709</u>	<u>66,108</u>	<u>422,817</u>
FUND BALANCES - ENDING	<u>\$ 283,367</u>	<u>\$ 369,586</u>	<u>\$ 652,953</u>

See notes to the financial statements

Charter Township of Gaines

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds (Continued)**

Year ended December 31, 2005

Reconciliation of the statement of revenues, expenditures, and changes
fund balances to the statement of activities.

Net change in fund balances - total governmental funds	\$ 230,136
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Amounts reported for *governmental activities* in the statement of activities
(page 5) are different because:

Capital assets:

Assets acquired	282,796
Provision for depreciation	<u>(282,549)</u>

Change in net assets of <i>governmental activities</i>	<u>\$ 230,383</u>
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See notes to the financial statements

Charter Township of Gaines
STATEMENT OF NET ASSETS - proprietary funds
December 31, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
ASSETS				
Current assets:				
Cash	\$ 2,737,393	\$ 2,619,687	\$ 444,984	\$ 5,802,064
Investments	1,590,210	2,321,445	-	3,911,655
Receivables, net	<u>496,767</u>	<u>411,045</u>	<u>-</u>	<u>907,812</u>
Total current assets	<u>4,824,370</u>	<u>5,352,177</u>	<u>444,984</u>	<u>10,621,531</u>
Noncurrent assets:				
Receivables, net	109,597	73,466	-	183,063
Capital assets, net of accumulated depreciation	<u>33,632,894</u>	<u>20,885,902</u>	<u>-</u>	<u>54,518,796</u>
Total noncurrent assets	<u>33,742,491</u>	<u>20,959,368</u>	<u>-</u>	<u>54,701,859</u>
Total assets	<u>38,566,861</u>	<u>26,311,545</u>	<u>444,984</u>	<u>65,323,390</u>
LIABILITIES				
Current liabilities:				
Payables	114,276	98,561	-	212,837
Due to other funds	<u>9,952</u>	<u>9,952</u>	<u>-</u>	<u>19,904</u>
Total liabilities	<u>124,228</u>	<u>108,513</u>	<u>-</u>	<u>232,741</u>
NET ASSETS				
Invested in capital assets	33,632,894	20,885,902	-	54,518,796
Unrestricted	<u>4,809,739</u>	<u>5,317,130</u>	<u>444,984</u>	<u>10,571,853</u>
Total net assets	<u>\$ 38,442,633</u>	<u>\$ 26,203,032</u>	<u>\$ 444,984</u>	<u>\$ 65,090,649</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS - proprietary funds
Year ended December 31, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
OPERATING REVENUES				
Charges for services	\$ 1,608,702	\$ 1,503,195	\$ 419,570	\$ 3,531,467
Other	34,419	155,285	-	189,704
Total operating revenues	<u>1,643,121</u>	<u>1,658,480</u>	<u>419,570</u>	<u>3,721,171</u>
OPERATING EXPENSES				
Personnel costs	63,452	63,452	275,546	402,450
Sewage treatment charges	1,046,019	-	-	1,046,019
Water charges	-	1,002,349	-	1,002,349
System operation and maintenance	184,209	318,602	-	502,811
Professional services	29,598	54,406	-	84,004
Miscellaneous	11,540	46,281	78,603	136,424
Depreciation	848,039	492,850	-	1,340,889
Total operating expenses	<u>2,182,857</u>	<u>1,977,940</u>	<u>354,149</u>	<u>4,514,946</u>
OPERATING INCOME (LOSS)	<u>(539,736)</u>	<u>(319,460)</u>	<u>65,421</u>	<u>(793,775)</u>
NONOPERATING REVENUES (EXPENSES)				
Capital contributions	639,291	736,188	-	1,375,479
Trunkage and availability fees	310,817	209,119	-	519,936
Interest revenue	143,902	183,222	-	327,124
Special assessment interest	17,087	8,400	-	25,487
Refund of capital contribution	-	(112,142)	-	(112,142)
Capital contributions to other unit	(22,522)	(50,374)	-	(72,896)
Loss on abandonment of capital assets	(22,808)	(23,150)	-	(45,958)
Total nonoperating revenues (expenses)	<u>1,065,767</u>	<u>951,263</u>	<u>-</u>	<u>2,017,030</u>
INCOME BEFORE SPECIAL ITEM	526,031	631,803	65,421	1,223,255
SPECIAL ITEM				
Transfer of capital assets to other unit	<u>(118,684)</u>	<u>(1,087,351)</u>	<u>-</u>	<u>(1,206,035)</u>
CHANGE IN NET ASSETS	407,347	(455,548)	65,421	17,220
NET ASSETS - BEGINNING	<u>38,035,286</u>	<u>26,658,580</u>	<u>379,563</u>	<u>65,073,429</u>
NET ASSETS - ENDING	<u>\$ 38,442,633</u>	<u>\$ 26,203,032</u>	<u>\$ 444,984</u>	<u>\$ 65,090,649</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF CASH FLOWS - proprietary funds
Year ended December 31, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 1,618,295	\$ 1,633,994	\$ 419,570	\$ 3,671,859
Payments to vendors and suppliers	(1,253,031)	(1,387,080)	(78,603)	(2,718,714)
Payments to employees	(63,452)	(63,452)	(275,546)	(402,450)
Net cash provided by operating activities	<u>301,812</u>	<u>183,462</u>	<u>65,421</u>	<u>550,695</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Collection of advances to General Fund	<u>180,423</u>	<u>145,304</u>	<u>-</u>	<u>325,727</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Collections of assessments receivable	101,607	49,610	-	151,217
Special assessment interest	17,087	8,400	-	25,487
Trunkage and availability fees	310,817	209,119	-	519,936
Proceeds from sale of land to General Fund	37,540	37,540	-	75,080
Capital contributions	57,762	56,188	-	113,950
Capital contributions paid to other governments	(22,521)	(162,516)	-	(185,037)
Acquisition of capital assets	(230,834)	(362,675)	-	(593,509)
Net cash provided by (used in) capital and related financing activities	<u>271,458</u>	<u>(164,334)</u>	<u>-</u>	<u>107,124</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net change in investments	4,959	(71,538)	-	(66,579)
Interest received	<u>112,902</u>	<u>151,922</u>	<u>-</u>	<u>264,824</u>
Net cash provided by investing activities	<u>117,861</u>	<u>80,384</u>	<u>-</u>	<u>198,245</u>
NET INCREASE IN CASH	<u>871,554</u>	<u>244,816</u>	<u>65,421</u>	<u>1,181,791</u>
CASH - BEGINNING	<u>1,865,839</u>	<u>2,374,871</u>	<u>379,563</u>	<u>4,620,273</u>
CASH - ENDING	<u>\$ 2,737,393</u>	<u>\$ 2,619,687</u>	<u>\$ 444,984</u>	<u>\$ 5,802,064</u>

See notes to the financial statements

Charter Township of Gaines
STATEMENT OF CASH FLOWS - proprietary funds (Continued)
Year ended December 31, 2005

	<u>Sewer</u>	<u>Water</u>	<u>Building Inspections</u>	<u>Totals</u>
Noncash capital and related financing activities:				
Acquisition of capital assets	\$ (800,834)	\$ (1,042,675)	\$ -	\$ (1,843,509)
Less capital assets contributed by developers	<u>570,000</u>	<u>680,000</u>	<u>-</u>	<u>1,250,000</u>
Net cash used	<u>\$ (230,834)</u>	<u>\$ (362,675)</u>	<u>\$ -</u>	<u>\$ (593,509)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (539,736)	\$ (319,460)	\$ 65,421	\$ (793,775)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	848,039	492,850	-	1,340,889
Increase in receivables	(24,826)	(24,486)	-	(49,312)
Increase in payables	<u>18,335</u>	<u>34,558</u>	<u>-</u>	<u>52,893</u>
Net cash provided by operating activities	<u>\$ 301,812</u>	<u>\$ 183,462</u>	<u>\$ 65,421</u>	<u>\$ 550,695</u>

See notes to the financial statements

Charter Township of Gaines

STATEMENT OF FIDUCIARY NET ASSETS - agency funds

December 31, 2005

ASSETS

Cash	\$ 732,174
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LIABILITIES

Payables	\$ 133,278
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Due to other governmental units	<u>598,896</u>
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Total liabilities	<u>\$ 732,174</u>
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See notes to the financial statements

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Gaines, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental fund:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Township reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Township's sewage collection systems.

The Water Fund accounts for the activities of the Township's water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

The Township reports two fiduciary funds, the Agency Fund and the Tax Collection Fund, which account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide financial statements.

iv) Capital assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning January 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 5 years
Vehicles	3 - 5 years
Sewer and water systems	50 years

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, taxes have been deferred from recognition as revenue until the following year.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Capital outlay	\$ 42,650	\$ 102,101	\$ 59,451
	Debt service - interest	-	45,265	45,265
	Transfers out	95,000	395,000	300,000

NOTE 3 - CASH AND INVESTMENTS:

The Township's deposits and investments were reported in the basic financial statements as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 847,643	\$ 5,802,064	\$ 732,174	\$ 7,381,881
Investments	53,051	3,911,655	-	3,964,706
	<u>\$ 900,694</u>	<u>\$ 9,713,719</u>	<u>\$ 732,174</u>	<u>\$ 11,346,587</u>

Deposits:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. At December 31, 2005, \$8,034,973 of the Township's bank balances of \$8,905,683 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Investments:

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds; and f) investment pools organized under the local government investment pool act. Not more than 50% of any mutual fund may be invested in commercial paper. The Township's investments consist of holdings in the Kent County Investment Pool, which are nonrisk-categorized qualifying investments, and are carried at cost, which approximates fair market value.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the Township's individual major funds are as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Property taxes</i>	<i>Accrued Interest</i>	<i>Special assessments</i>	<i>Totals</i>
Governmental activities:					
General Fund	\$ 255,289	\$ 526,572	\$ -	\$ -	\$ 781,861
Business-type activities:					
Sewer Fund	\$ 401,394	\$ -	\$ 31,000	\$ 173,970	\$ 606,364
Water Fund	360,488	-	31,300	92,723	484,511
Total business-type activities	\$ 761,882	\$ -	\$ 62,300	\$ 266,693	\$ 1,090,875
Noncurrent portion	\$ -	\$ -	\$ -	\$ 183,063	\$ 183,063

All receivables are considered fully collectible.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year deferred revenue represents taxes levied December 1, 2005 that will finance expenditures of the following year. Deferred revenue, in the amount of \$944,054, consists of taxes receivable, in the amount of \$526,572, and cash received, in the amount of \$417,482.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2005, was as follows:

Governmental activities:				
Capital assets not being depreciated - land	\$ 1,594,600	\$ 75,391	\$ -	\$ 1,669,991
Capital assets being depreciated:				
Buildings	5,234,571	-	-	5,234,571
Equipment and vehicles	2,379,076	207,405	-	2,586,481
Total capital assets being depreciated	7,613,647	207,405	-	7,821,052
Less accumulated depreciation:				
Buildings	317,919	135,010	-	452,929
Equipment and vehicles	869,683	147,539	-	1,017,222
Total accumulated depreciation	1,187,602	282,549	-	1,470,151
Governmental activities capital assets, net	\$ 8,020,645	\$ 247	\$ -	\$ 8,020,892
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 308,486	\$ -	\$ 308,486	\$ -
Construction in progress	2,552	512,669	-	515,221
Total capital assets not depreciated	311,038	512,669	308,486	515,221
Capital assets being depreciated:				
Sewer system	42,380,300	583,846	41,600	42,922,546
Water system	25,781,609	747,294	1,213,900	25,315,003
Office equipment	38,726	-	-	38,726
Total capital assets being depreciated	68,200,635	1,331,140	1,255,500	68,276,275
Less accumulated depreciation:				
Sewer system	8,677,335	848,039	(16,812)	9,508,562
Water system	4,452,665	492,850	(220,103)	4,725,412
Office equipment	38,726	-	-	38,726
Total accumulated depreciation	13,168,726	1,340,889	(236,915)	14,272,700
Business-type activities capital assets, net	\$ 55,342,947	\$ 502,920	\$ 1,327,071	\$ 54,518,796

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 171,011
Public safety	103,048
Public works	6,290
Community and economic development	<u>2,200</u>
Total governmental activities	<u>\$ 282,549</u>

NOTE 6 - PAYABLES:

Payables as of year end for the Township's individual major funds are as follows:

	<u>Accounts</u>	<u>Payroll</u>	<u>Totals</u>
Governmental activities:			
General	<u>\$ 105,452</u>	<u>\$ -</u>	<u>\$ 105,452</u>
Business-type activities:			
Sewer	\$ 114,276	-	\$ 114,276
Water	<u>98,561</u>	<u>-</u>	<u>98,561</u>
Total business-type activities	<u>\$ 212,837</u>	<u>-</u>	<u>\$ 212,837</u>

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At December 31, 2005, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ 19,904	Sewer	\$ 9,952
		Water	9,952
			<u>\$ 19,904</u>

The amounts owed to the General Fund represent reimbursements for personnel costs.

The interfund transfers for the year ended December 31, 2005, are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Township Improvement			
Revolving	\$ 380,000	General	<u>\$ 395,000</u>
Trails	10,000		
Vision For Division	<u>5,000</u>		
	<u>\$ 395,000</u>		

These transfers moved unrestricted revenues, collected in the General Fund, to the Township's nonmajor governmental funds to finance capital acquisitions, trail development, and street improvements.

NOTE 8 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - DEFINED CONTRIBUTION PENSION PLANS:

The Township maintains two separate defined contribution pension plans. The first plan covers all full time employees (over 20 hours per week) and Township Trustees. The Township contributes 10% of covered payroll to this plan on behalf of qualifying employees. All costs associated with the plan are paid or accrued currently. Township contributions for the year ended December 31, 2005, totaled \$76,388.

The second Township pension plan covers volunteer firemen and planning commission and zoning board members. The Township contributes 3.75% of covered payroll to this plan on behalf of qualifying employees, with an equal percentage contributed by all covered employees. Township contributions for the year ended December 31, 2005, totaled \$16,443.

The Township is not a trustee of these plans, nor is the Township responsible for investment management of plan assets.

NOTE 10 - JOINT VENTURE:

Byron-Gaines Utility Authority:

The Township is a member of the Byron-Gaines Utility Authority, a joint venture of the Townships of Byron and Gaines. The administrative board of the Authority consists of members appointed by each participating unit. The Authority was formed to jointly provide water and sewer services within the combined service area, which encompasses the participating municipalities. During the year ended December 31, 2005, the Township contributed \$306,304 as its proportionate share of the Authority's capital costs and operating expenses.

NOTE 11 - SPECIAL ITEM:

During the year ended December 31, 2005, the Township transferred capital assets from the sewer and water funds to the Byron-Gaines Utilities Authority that resulted in a loss of \$1,206,035. The loss is presented in the accompanying financial statements as a special item because it is a significant transaction, within the control of the Township's management that is unusual in nature.

Charter Township of Gaines
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - PRIOR PERIOD ADJUSTMENTS:

Prior period adjustments have been recorded in 2005 that resulted in a restatement of net assets. Net assets as of January 1, 2005, included in the government-wide financial statements, represents a restated balance as presented below. The following schedule identifies the nature and amount of the adjustments recorded.

	<u>Net assets</u>
Governmental activities:	
Beginning of year, as previously reported	\$ 6,793,668
Prior period adjustments:	
Overstatement of payables	55,194
Understatement of capital assets	<u>1,594,600</u>
Beginning of year, as restated	<u>\$ 8,443,462</u>

A prior period adjustment has been recorded in 2005 that resulted in a fund balance restatement. Fund equity as of January 1, 2005, included in the fund statements, represents a restated balance as presented below. The following schedule identifies the nature and amount of the adjustment recorded.

	<u>Fund Balance</u>
General Fund:	
Beginning of year, as previously reported	\$ 301,515
Prior period adjustment - overstatement of payables	<u>55,194</u>
Beginning of year, as restated	<u>\$ 356,709</u>

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Gaines
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended December 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 771,000	\$ 771,000	\$ 687,284	\$ (83,716)
State grants	1,437,000	1,437,000	1,404,373	(32,627)
Charges for services	136,000	136,000	217,689	81,689
Interest and rentals	152,166	152,166	98,783	(53,383)
Other:				
Special assessment - street lighting	100,000	100,000	127,103	27,103
Miscellaneous	96,450	96,450	58,403	(38,047)
 Total revenues	<u>2,692,616</u>	<u>2,692,616</u>	<u>2,593,635</u>	<u>(98,981)</u>
 EXPENDITURES				
Legislative	<u>10,012</u>	<u>10,012</u>	<u>10,995</u>	<u>(983)</u>
 General government:				
Supervisor	146,591	146,591	137,568	9,023
Elections	14,212	14,212	8,647	5,565
Assessor	121,084	121,084	108,732	12,352
Clerk	101,854	101,854	95,619	6,235
Board of review	2,928	2,928	1,919	1,009
Treasurer	103,395	103,395	95,422	7,973
Building and grounds	127,440	127,440	105,398	22,042
Cemetery	33,332	33,332	35,999	(2,667)
General administration	203,220	203,220	101,564	101,656
 Total general government	<u>854,056</u>	<u>854,056</u>	<u>690,868</u>	<u>163,188</u>
 Public safety:				
Police protection	288,000	288,000	272,270	15,730
Cutlerville Fire Department	339,790	339,790	250,593	89,197
Dutton Fire Department	308,547	308,547	265,914	42,633
Other	58,502	58,502	53,403	5,099
 Total public safety	<u>994,839</u>	<u>994,839</u>	<u>842,180</u>	<u>152,659</u>

Charter Township of Gaines

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended December 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Public works:				
Engineering	\$ 122,691	\$ 122,691	\$ 85,633	\$ 37,058
Road improvements and maintenance	110,000	110,000	102,166	7,834
Street lights	100,000	100,000	106,503	(6,503)
Public transportation	44,277	44,277	37,302	6,975
Drains	37,000	37,000	25,250	11,750
Hydrant rental	11,000	11,000	10,880	120
Total public works	<u>424,968</u>	<u>424,968</u>	<u>367,734</u>	<u>57,234</u>
Community and economic development - planning and zoning	<u>233,866</u>	<u>233,866</u>	<u>181,096</u>	<u>52,770</u>
Culture and recreation:				
Parks	6,325	6,325	4,725	1,600
Library	<u>30,900</u>	<u>30,900</u>	<u>27,013</u>	<u>3,887</u>
Total culture and recreation	<u>37,225</u>	<u>37,225</u>	<u>31,738</u>	<u>5,487</u>
Capital outlay	<u>42,650</u>	<u>42,650</u>	<u>102,101</u>	<u>(59,451)</u>
Debt service - interest	<u>-</u>	<u>-</u>	<u>45,265</u>	<u>(45,265)</u>
Total expenditures	<u>2,597,616</u>	<u>2,597,616</u>	<u>2,271,977</u>	<u>325,639</u>
EXCESS OF REVENUES OVER EXPENDITURES	95,000	95,000	321,658	226,658
OTHER FINANCING USES				
Transfers out	<u>(95,000)</u>	<u>(95,000)</u>	<u>(395,000)</u>	<u>(300,000)</u>
NET CHANGE IN FUND BALANCES	-	-	(73,342)	(73,342)
FUND BALANCES - BEGINNING	<u>356,709</u>	<u>356,709</u>	<u>356,709</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 356,709</u>	<u>\$ 356,709</u>	<u>\$ 283,367</u>	<u>\$ (73,342)</u>

SUPPLEMENTARY INFORMATION

Charter Township of Gaines
COMBINING BALANCE SHEET - nonmajor governmental funds
December 31, 2005

	<u>Special revenue funds</u>			<u>Total</u>
	<u>Township</u>	<u>Vision</u>		<u>nonmajor</u>
	<u>Improvement</u>	<u>For</u>		<u>governmental</u>
	<u>Revolving</u>	<u>Division</u>	<u>Trails</u>	<u>funds</u>
ASSETS				
Cash	\$ 302,433	\$ 10,014	\$ 54,866	\$ 367,313
Investments	<u>2,273</u>	<u>-</u>	<u>-</u>	<u>2,273</u>
Total assets	<u>\$ 304,706</u>	<u>\$ 10,014</u>	<u>\$ 54,866</u>	<u>\$ 369,586</u>
FUND BALANCES				
Fund balances:				
Unreserved, undesignated	<u>\$ 304,706</u>	<u>\$ 10,014</u>	<u>\$ 54,866</u>	<u>\$ 369,586</u>

Charter Township of Gaines

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended December 31, 2005

	<u>Special revenue funds</u>			<u>Total nonmajor governmental funds</u>
	<u>Township Improvement Revolving</u>	<u>Vision For Division</u>	<u>Trails</u>	
REVENUES				
Contribution from local unit	\$ -	\$ 5,000	\$ -	\$ 5,000
Interest	91	14	560	665
Other	-	-	2,867	2,867
Total revenues	91	5,014	3,427	8,532
EXPENDITURES				
Capital outlay	100,054	-	-	100,054
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(99,963)	5,014	3,427	(91,522)
OTHER FINANCING SOURCES				
Transfers in - General Fund	380,000	5,000	10,000	395,000
NET CHANGE IN FUND BALANCES	280,037	10,014	13,427	303,478
FUND BALANCES - BEGINNING	24,669	-	41,439	66,108
FUND BALANCES - ENDING	\$ 304,706	\$ 10,014	\$ 54,866	\$ 369,586

February 24, 2006

Board of Trustees
Charter Township of Gaines, Michigan

In planning and performing our audit of the financial statements of the Charter Township of Gaines, Michigan, for the year ended December 31, 2005, we considered the Township's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 24, 2006, on the financial statements of the Charter Township of Gaines, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Township management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

Siegfried Crandall P.C.

COMMENTS AND RECOMMENDATIONS

New special revenue funds:

During the past two years, the Township approved the establishment of two new special revenue funds – Trails and Vision for Division. The transactions of these funds were not recorded in the Township's accounting system and the Board did not approve budgets for either of the funds.

While there are few transactions in these funds and the balances are insignificant relative to the Township's major funds, we recommend that all transactions of these funds be recorded in the Township's accounting system. The Board must also annually adopt a budget for each of these special revenue funds in accordance with Public Act 621 of 1978.

Reconciliation of enterprise fund receivable balances:

Enterprise fund receivable balances were not reconciled to their respective general ledger control accounts in a timely manner.

We recommend the reconciliation of receivable balances to the general ledger control accounts on a monthly basis. This procedure must be performed to ensure that accurate information is available for monitoring financial operations of the sewer and water funds.

Inspections Fund transactions:

The Township currently records the transactions of its Inspections Fund in the General Fund and removes the balances at the end of each calendar quarter. The balances are correctly removed from the General Fund because they must be accounted for within an enterprise fund. While the transactions were correctly removed from the General Fund, they were not properly reclassified to the Inspections Fund.

We commend the Township Clerk for properly removing the Inspections Fund transactions from the General Fund and recommend that these transactions be correctly reclassified to the Inspections Fund on a quarterly basis, at a minimum. This procedure must be performed to ensure that accurate information is available for monitoring the financial operations of the Inspections Fund.

Purchasing policy:

The Township may want to consider enhancements to its written purchasing policy in order to ensure the acquisition of the highest quality products and services in the most efficient, fair, and economical manner. The Township would also experience the following benefits:

- Enhanced control over expenditures
- Ensure compliance with the Appropriations Act
- Clarification of responsibilities concerning authorization and approval of expenditures
- Establish bid requirements
- Define emergency purchases
- Limit and control employee expense reimbursements

Accounting policies and procedures manual:

Many of the Township's policies and procedures, especially those related to the accounting function, have not been formally documented.

We recommend that the Township develop a written accounting policies and procedures manual. Committing the Township's policies and procedures to writing would provide several benefits, including:

- clarification of responsibilities and segregation of duties
- communication of appropriate systems of internal controls
- improve continuity at the time of personnel changes